
CHAPTER 4

DEPRECIATION OF REAL PROPERTY

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1. PURPOSE. This section provides procedures for the depreciation of real property assets and the maintenance of related depreciation records for the Departmental Accounting Financial Information System (DAFIS) accounts. The current real estate management system does not have the capacity to compute depreciation, so the calculation is performed outside of the real estate management system.

2. DEFINITIONS.

a. Depreciation – This is the allocation of the cost of an asset over the period of time of its use.

b. Straight Line Depreciation – This is a method of calculating depreciation, which assumes the asset will lose an equal amount of value each year of its estimated useful life. The total recorded cost of the asset is divided by the number of years estimated for its useful life, and the resulting number is the depreciation expense for each established year of life.

Example: An office building bought by FAA cost \$800,000. The useful life assigned for book purposes is 40 years, and there will be no salvage value. Straight-line depreciation is calculated as follows:

\$800,000 / 40 years = \$20,000 depreciation expense per year

3. RESPONSIBILITIES.

a. The Office of Financial Services, Financial Systems Development Branch, AFM-320, will develop, maintain and revise, as needed, policies and procedures for real property depreciation. This office will calculate depreciation and provide the information to the region/center accounting offices for entry into DAFIS.

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b. The Office of Acquisitions, Real Estate Policy Branch, ASU-140, will implement, support and maintain identification of depreciation for real property assets as part of the real property management system. ASU-140 will provide AFM-320 with updated, timely real estate information which will be used to calculate depreciation.

c. The region/center accounting offices, will enter the real property depreciation transactions into DAFIS.

4. DEPRECIATION CRITERIA. The following criteria are applicable to the depreciation of capitalized real property:

a. Assets to be Depreciated. Land is not depreciated. Depreciation on other real property assets is calculated annually and recorded for depreciable capitalized assets of record (e.g., buildings and other structures), which are not fully depreciated as of the beginning of the current fiscal year. A September cutoff date will be established each year by AFM-320 to prepare the fiscal year closeout of real property depreciation entries in DAFIS.

This will enable the entries to be posted no later than the week after fiscal year end (DAFIS grace period). No depreciation expense will be recognized on an asset put in service during the fiscal year it is acquired. A full year's depreciation will be assessed during the asset's final year of use. The following identifies the date that should be considered in determining when an asset becomes eligible for depreciation:

1. Buildings – Occupancy date
2. Other Structures – Date placed into service

b. Computation. Depreciation will be computed by AFM-320 using the straight-line method.

c. Residual Value or Salvage Value. No residual values will be recognized for the FAA real property assets. Property will remain in

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the real estate management system as fully depreciated (valued at cost in DAFIS) until the real estate and accounting office transfers the asset to the DAFIS excess general ledger account, “17 CZ – Buildings Not In-Use” or “17EZ – Other Structures Not In-Use”, from the original asset account. After the expiration of the asset’s useful life, the FAA normally donates or transfers the asset to another government agency, such as the United States Coast Guard, to aid their missions. See this chapter, Section 6 – “Excess Real Property”, in this guide for additional information about excess real property.

d. Useful life. The following standards will be used in determining the useful life of the asset for the purpose of calculating depreciation:

<u>Useful Life Asset Classification (G/L Account)</u>	<u>(Years)</u>
Office Buildings, Warehouse Buildings (including Commercial and Government), Residential Properties, Air Traffic Control Towers, and En Route Air Traffic Control Centers	40
Mobile Homes	20
Capital Improvements, Facility Modifications, Communication Equipment, Leasehold Improvements (or expiration of lease, whichever comes first)	10
Original Roads, Sidewalks, Parking Lots, and All Other Structures	15

e. Betterment or Improvement to Capitalized Real Property.

The costs for a modification (betterment) or addition of an improvement to real property shall be capitalized when: (1) the total accumulated costs are at least \$25,000, and (2) either the useful life of the

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item is extended by at least 2 years, or the capacity of the asset to render service is increased by at least 2 years.

If the betterment or improvement does not meet the 2-year time criterion, or the accumulated costs of the betterment or improvement do not meet the \$25,000 threshold, the costs must be expensed. Each betterment or improvement should be evaluated for capitalization as a separate project from the original asset. This will allow for tracking of each modification's costs, distinguish those costs from the asset's original costs, and identify the useful life of the capitalized modification or improvement.

f. Real Property (Support) Records. The region's centralized folders will have details from the Capitalization Closeout Packages, which contain purchase orders, receiving reports, and other supporting information for the valuation of real property records in the real estate management system. Betterment and improvement files will be established separate to the file for the asset that was benefited. This will enable clear tracking of the improvement costs.

5. DEPRECIATION PROCEDURES. The Financial Systems Development Branch, AFM-320, will periodically use data extracted from real property systems to maintain a current file of depreciable real property. AFM-320 will use that information to calculate depreciation for the current year and any adjustments to accumulated depreciation for prior years. AFM-320 will provide the real property depreciation calculations to the region/center accounting offices for entry in DAFIS. The depreciation file will contain the following data for assets that cost at least \$25,000 (accumulated costs), with a useful life of at least 2 years:

- a. Region code
- b. Cost center
- c. Facility ID

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- d. Dollar amounts (costs of asset)
- e. GSA address
- f. Job Order Number (JON)
- g. Date of acquisition
- h. Rehabilitation costs
- i. Date of last improvement
- j. Date of last inventory

Depreciation expense will be calculated and recorded in DAFIS annually in September for depreciable real property assets (e.g., buildings, other structures, etc.) which were commissioned or purchased in the previous fiscal years. Items purchased or put in service during the current fiscal year will not be depreciated until September of the next fiscal year.

The accounting entries will be prepared for the prior and current fiscal years and entered into DAFIS by region and cost center. The following transactions will be used to record the entries:

Entry to Record Adjustment of Prior Year Depreciation:

TC 437

MAC A5

Depreciation Expense-Prior years	Debit (DR) 74 AX
Accumulated Depreciation	Credit (CR) 17 DX
	(Buildings)

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TC 437

MAC A6

Depreciation Expense-Prior years	Debit (DR) 74 AX
Accumulated Depreciation	Credit (CR) 17 FX
	(Other Structures)

This entry is made to record an adjustment to the prior fiscal year's depreciation expense.

Entry to Record Current Year Depreciation:

TC 476

MAC A2

OE-Depreciation Expense	Debit (DR) 61 AN
Accumulated Depreciation	Credit (CR) 17 DX
	(Buildings)

TC 476

MAC A3

OE-Depreciation Expense	Debit (DR) 61 AN
Accumulated Depreciation	Credit (CR) 17 FX
	(Other Structures)

The current fiscal year entry records the current year's depreciation expense for depreciable real property.

The FAA Central Region's Logistics Management Service Center, ACE-50 (manager of the real estate management system), will transmit data received from all regions to the Real Estate Policy Branch, ASU-140, at FAA Headquarters. The data will be used to generate reports which support entries made to DAFIS. The following procedures are performed in conjunction with this activity:

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(1) Verification of records in the real estate management system, AFM-320's records of depreciable real property and accumulated depreciation, and applicable DAFIS records will be periodically performed.

(2) There will be no retirement expense when an asset is taken out of service before expiration of its useful life. The asset's remaining book cost will be transferred to general ledger account "17 CZ - Building Not In-Use", and the related accumulated depreciation will be transferred to "17 DY - Accumulated Depreciation - Building Not In-Use" or "17EZ – Other Structure Not In-Use," and the related accumulated depreciation will be transferred to "17FY – Accumulated Depreciation – Other Structure Not In-Use." The asset will remain in DAFIS as capitalized real property until the official change of possession takes place.

6. EXCESS REAL PROPERTY. Documentation received from Oklahoma City evidencing reclassification of capitalized real property from an "in-use" to an "excess" status will be used as the basis for recording the value of excess property (see entry below) and will remain in the real estate management system. The related accumulated depreciation will be transferred to an offsetting accumulated depreciation account for excess real property. Entries to real property change in status are as follows:

TC 485

MAC CZ

Buildings Not In-Use

Buildings – UNCLS.

Debit (DR) 17 CZ

Credit (CR) 17 CX

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TC 485

MAC EZ

Other Structures Not In-Use	Debit (DR) 17 EZ
Other Structures & Facilities -UNCLS	Credit (CR) 17 EX

This entry records the transfer to the Building/Other Structure Not In-Use inventory account while retaining the asset as an inventory item.

TC 375

MAC DY

Accumulated Depreciation. - Buildings	Debit (DR) 17DX
Accumulated Depreciation	Credit (CR) 17DY
Buildings Not In-Use	

TC 375

MAC FY

Accumulated Depreciation	Debit (DR) 17FX
Other Structures	
Accumulated Depreciation	Credit (CR) 17FY
Other Structures Not In-Use	

This entry records the transfer of the accumulated depreciation of an asset when the asset has been transferred to the Building/Other Structure not in-use account.

Excess property may be placed back into service. This occurs when the asset required meets the needs and is functional. In such cases, the asset will be given a new identified book value and life. The asset will be capitalized if the value is determined to be \$25,000 or more and the estimated life is at least 2 years; the asset will be expensed if it does not meet this criteria.